



The Board of Directors
The Nashua Bank
Nashua, New Hampshire

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheets of The Nashua Bank as of December 31, 2010 and 2009 and the related statements of loss, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Nashua Bank as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Shatswell, MacLeod + Company, P.C.
SHATSWELL, MacLEOD & COMPANY, P.C.

West Peabody, Massachusetts
April 1, 2011

THE NASHUA BANK

BALANCE SHEETS

December 31, 2010 and 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Cash and due from banks	\$ 2,072,557	\$ 1,199,594
Interest-bearing demand deposits with other banks	4,108,472	6,926,769
Money market mutual funds	134,154	103,263
Federal funds sold	<u>1,595,000</u>	<u>351,000</u>
Cash and cash equivalents	7,910,183	8,580,626
Interest-bearing time deposits with other banks	1,150,000	1,150,000
Investments in available-for-sale securities (at fair value)	37,028,173	40,863,747
Federal Home Loan Bank stock	489,900	489,900
Loans, net	62,572,878	49,099,556
Premises and equipment	804,835	879,828
Accrued interest receivable	317,183	387,624
Deferred income tax asset, net	187,803	-
Other assets	393,910	656,405
Total assets	<u>\$110,854,865</u>	<u>\$102,107,686</u>
 <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Deposits:		
Noninterest-bearing	\$ 6,946,404	\$ 6,067,571
Interest-bearing	<u>87,210,490</u>	<u>77,277,424</u>
Total deposits	94,156,894	83,344,995
Federal Home Loan Bank advances	3,955,256	6,938,575
Other liabilities	<u>311,980</u>	<u>208,691</u>
Total liabilities	<u>98,424,130</u>	<u>90,492,261</u>
Stockholders' equity:		
Common stock, par value \$1.00; authorized 5,000,000 shares; shares issued 1,260,450	1,260,450	1,260,450
Paid-in capital	12,136,250	11,992,759
Accumulated deficit	(1,214,744)	(1,887,753)
Accumulated other comprehensive income	<u>248,779</u>	<u>249,969</u>
Total stockholders' equity	<u>12,430,735</u>	<u>11,615,425</u>
Total liabilities and stockholders' equity	<u>\$110,854,865</u>	<u>\$102,107,686</u>

The accompanying notes are an integral part of these financial statements.

THE NASHUA BANK

STATEMENTS OF INCOME (LOSS)

Years Ended December 31, 2010 and 2009

	2010	2009
Interest and dividend income:		
Interest and fees on loans	\$3,437,057	\$2,344,165
Interest on securities - taxable	1,225,466	1,451,026
Interest on federal funds sold	230	4,831
Other interest and dividends	59,813	121,151
Total interest and dividend income	4,722,566	3,921,173
Interest expense:		
Interest on deposits	1,121,852	1,289,875
Interest on Federal Home Loan Bank advances	112,957	148,357
Total interest expense	1,234,809	1,438,232
Net interest and dividend income	3,487,757	2,482,941
Provision for loan losses	206,795	352,346
Net interest and dividend income after provision for loan losses	3,280,962	2,130,595
Noninterest income:		
Customer service fees	47,534	26,573
Gain on sales of securities	236,170	11,632
Other income	3,601	3,085
Total noninterest income	287,305	41,290
Noninterest expense:		
Salaries and employee benefits	1,688,884	1,289,909
Occupancy expense	252,522	207,110
Equipment expense	81,180	61,906
Data processing expense	173,923	134,870
Insurance expense	14,177	25,240
FDIC assessment	215,626	147,725
Professional fees	410,231	219,719
Advertising and promotions	93,104	89,287
Other expense	316,590	194,797
Total noninterest expense	3,246,237	2,370,563
Income (loss) before income tax benefit	322,030	(198,678)
Income tax benefit	(350,979)	-
Net income (loss)	\$ 673,009	\$ (198,678)
Net income (loss) per share – basic and diluted	\$.53	\$ (0.16)

The accompanying notes are an integral part of these financial statements.

THE NASHUA BANK

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2010 and 2009

	<u>Common Stock</u>	<u>Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
Balance, December 31, 2008	\$1,260,450	\$11,847,087	\$(1,689,075)	\$307,188	\$11,725,650
Share-based compensation - expense	-	145,672	-	-	145,672
Comprehensive loss:					
Net loss	-	-	(198,678)	-	-
Net change in unrealized holding gain on available-for-sale securities	-	-	-	(57,219)	-
Comprehensive loss	-	-	-	-	(255,897)
Balance, December 31, 2009	<u>1,260,450</u>	<u>11,992,759</u>	<u>(1,887,753)</u>	<u>249,969</u>	<u>11,615,425</u>
Share-based compensation expense	-	143,491	-	-	143,491
Comprehensive income:					
Net income	-	-	673,009	-	-
Net change in unrealized holding gain on available-for-sale securities, net of tax effect	-	-	-	(1,190)	-
Comprehensive income	-	-	-	-	671,819
Balance, December 31, 2010	<u>\$1,260,450</u>	<u>\$12,136,250</u>	<u>\$(1,214,744)</u>	<u>\$248,779</u>	<u>\$12,430,735</u>

Reclassification disclosure for the years ended December 31:

	<u>2010</u>	<u>2009</u>
Net unrealized holding gains (losses) on available-for-sale securities	\$ 398,156	\$(45,587)
Reclassification adjustment for realized gains in net income	<u>(236,170)</u>	<u>(11,632)</u>
	161,986	(57,219)
Income tax expense	<u>(163,176)</u>	-
Other comprehensive loss	<u>\$ (1,190)</u>	<u>\$(57,219)</u>

Accumulated other comprehensive income as of December 31, 2010 and 2009 consists of net unrealized holding gains on available-for-sale securities, net of tax effect.

The accompanying notes are an integral part of these financial statements.

THE NASHUA BANK

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Net income (loss)	\$ 673,009	\$ (198,678)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of securities, net	166,003	103,746
Gain on sales of securities	(236,170)	(11,632)
Change in deferred fees, net	5,930	46,957
Provision for loan losses	206,795	352,346
Depreciation and amortization	131,531	113,514
Decrease (increase) in interest receivable	70,441	(151,787)
Decrease (increase) in prepaid expenses	161,939	(413,413)
Increase in income taxes receivable	(10,000)	-
Deferred tax benefit	(350,979)	-
(Increase) decrease in other assets	(13,421)	860
Increase in interest payable	13,078	4,378
Increase in accrued expenses and other liabilities	90,211	84,094
Stock option expense	<u>143,491</u>	<u>145,672</u>
Net cash provided by operating activities	<u>1,051,858</u>	<u>76,057</u>
Cash flows from investing activities:		
Maturities of interest-bearing time deposits with other banks	-	9,650,000
Purchases of interest-bearing time deposits with other banks	-	(2,400,000)
Purchases of available-for-sale securities	(20,655,431)	(42,461,373)
Proceeds on sales of available-for-sale securities	5,319,088	4,455,513
Calls, maturities and paydowns of available-for-sale securities	19,514,142	16,227,702
Purchases of Federal Home Loan Bank stock	-	(451,100)
Loan originations and principal collections, net	(10,986,047)	(18,565,489)
Purchased loans	(2,700,000)	(3,962,500)
Capital expenditures	<u>(42,633)</u>	<u>(184,337)</u>
Net cash used in investing activities	<u>(9,550,881)</u>	<u>(37,691,584)</u>
Cash flows from financing activities:		
Net increase in demand deposits, NOW and savings accounts	1,272,648	26,406,773
Net increase in time deposits	9,539,251	6,830,954
Proceeds from long-term Federal Home Loan Bank advances	-	9,000,000
Payments on long-term Federal Home Loan Bank advances	<u>(2,983,319)</u>	<u>(2,061,425)</u>
Net cash provided by financing activities	<u>7,828,580</u>	<u>40,176,302</u>
Net (decrease) increase in cash and cash equivalents	(670,443)	2,560,775
Cash and cash equivalents at beginning of year	<u>8,580,626</u>	<u>6,019,851</u>
Cash and cash equivalents at end of year	<u>\$ 7,910,183</u>	<u>\$ 8,580,626</u>
Supplemental disclosures:		
Interest paid	\$1,221,731	\$1,433,854
Income taxes paid	10,000	-
Leasehold improvement applied to accrued rent	-	14,356
(Decrease) increase in due from broker	(110,072)	141,191

The accompanying notes are an integral part of these financial statements.

THE NASHUA BANK

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2010 and 2009

NOTE 1 - NATURE OF OPERATIONS

The Nashua Bank (Bank) is a state chartered bank which was incorporated on August 13, 2007 and is headquartered in Nashua, New Hampshire. The Bank began operating as a bank on October 1, 2007. The Bank is engaged principally in the business of attracting deposits from the general public and investing those deposits in residential and commercial real estate loans, and in consumer and small business loans.

NOTE 2 - ACCOUNTING POLICIES

The accounting and reporting policies of the Bank conform to accounting principles generally accepted in the United States of America and predominant practices within the banking industry. The financial statements were prepared using the accrual method of accounting. The significant accounting policies are summarized below to assist the reader in better understanding the financial statements and other data contained herein.

USE OF ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS:

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash items, due from banks, interest-bearing demand deposits with other banks, money market mutual funds and federal funds sold.

SECURITIES:

Investments in debt securities are adjusted for amortization of premiums and accretion of discounts so as to approximate the interest method. Gains or losses on sales of investment securities are computed on a specific identification basis.

The Bank classifies debt and equity securities into one of three categories: held-to-maturity, available-for-sale or trading. These security classifications may be modified after acquisition only under certain specified conditions. In general, securities may be classified as held-to-maturity only if the Bank has the positive intent and ability to hold them to maturity. Trading securities are defined as those bought and held principally for the purpose of selling them in the near term. All other securities must be classified as available-for-sale.

- Held-to-maturity securities are measured at amortized cost in the balance sheet. Unrealized holding gains and losses are not included in earnings or in a separate component of capital. They are merely disclosed in the notes to the financial statements.
- Available-for-sale securities are carried at fair value on the balance sheet. Unrealized holding gains and losses are not included in earnings but are reported as a net amount (less expected tax) in a separate component of capital until realized.
- Trading securities are carried at fair value on the balance sheet. Unrealized holding gains and losses for trading securities are included in earnings.

For any debt security with a fair value less than its amortized cost basis, the Bank will determine whether it has the intent to sell the debt security or whether it is more likely than not it will be required to sell the debt security before the recovery of its amortized cost basis. If either condition is met, the Bank will recognize a full impairment charge to earnings. For all other debt securities that are considered other-than-temporarily impaired and do not meet either condition, the credit loss portion of impairment will be recognized in earnings as realized losses. The other-than-temporary impairment related to all other factors will be recorded in other comprehensive income.

Declines in marketable equity securities below their cost that are deemed other than temporary are reflected in earnings as realized losses.

As a member of the Federal Home Loan Bank (FHLB), the Bank is required to invest in \$100 par value stock of FHLB. The FHLB capital structure mandates that members must own stock as determined by their Total Stock Investment Requirement which is the sum of a member's Membership Stock Investment Requirement and Activity-Based Stock Investment Requirement. The Membership Stock Investment Requirement is calculated as 0.35% of member's Stock Investment Base, subject to a minimum investment of \$10,000 and a maximum investment of \$25,000,000. The Stock Investment Base is an amount calculated based on certain assets held by a member that are reflected on call reports submitted to applicable regulatory authorities. The Activity-Based Stock Investment Requirement is calculated as 4.5% of a member's outstanding principal balances of FHLB advances plus a percentage of advance commitments, 4.5% of standby letters of credit issued by the FHLB and 4.5% of the value of intermediated derivative contracts. Management evaluates the Bank's investment in FHLB of Boston stock for other-than-temporary impairment at least on a quarterly basis and more frequently when economic or market conditions warrant such evaluation. Based on its most recent analysis of the FHLB of Boston as of December 31, 2010 management deems its investment in FHLB of Boston stock to be not other-than-temporarily impaired.

On December 8, 2008, the Federal Home Loan Bank of Boston announced a moratorium on the repurchase of excess stock held by its members. The moratorium will remain in effect indefinitely.

LOANS:

Loans receivable that management has the intent and ability to hold until maturity or payoff are reported at their outstanding principal balances adjusted for amounts due to borrowers on unadvanced loans, any charge-offs, the allowance for loan losses and any deferred fees, costs on originated loans or unamortized premiums or discounts on purchased loans.

Interest on loans is recognized on a simple interest basis.

Loans are placed on nonaccrual status when reaching 90 days past due, except when the loans are well secured and in the process of collection. When a loan has been placed on nonaccrual status, previously accrued and uncollected interest is reversed against interest on loans. A loan can be returned to accrual status when collectibility of principal is reasonably assured and the loan has performed for a period of time, generally three months.

Cash receipts of interest income on impaired loans is credited to principal to the extent necessary to eliminate doubt as to the collectibility of the net carrying amount of the loan. Some or all of the cash receipts of interest income on impaired loans is recognized as interest income if the remaining net carrying amount of the loan is deemed to be fully collectible. When recognition of interest income on an impaired loan on a cash basis is appropriate, the amount of income that is recognized is limited to that which would have been accrued on the net carrying amount of the loan at the contractual interest rate. Any cash interest payments received in excess of the limit and not applied to reduce the net carrying amount of the loan are recorded as recoveries of charge-offs until the charge-offs are fully recovered.

ALLOWANCE FOR LOAN LOSSES:

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures.

PREMISES AND EQUIPMENT:

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Cost and related allowances for depreciation and amortization of premises and equipment retired or otherwise disposed of are removed from the respective accounts with any gain or loss included in income or expense. Depreciation and amortization are calculated principally on the straight-line method over the estimated useful lives of the assets.

OTHER REAL ESTATE OWNED AND IN-SUBSTANCE FORECLOSURES:

Other real estate owned includes properties acquired through foreclosure and properties classified as in-substance foreclosures in accordance with ASC 310-40, "Receivables - Troubled Debt Restructuring by Creditors." These properties are carried at the lower of cost or estimated fair value less estimated costs to sell. Any writedown from cost to estimated fair value required at the time of foreclosure or classification as in-substance foreclosure is charged to the allowance for loan losses. Expenses incurred in connection with maintaining these assets, subsequent writedowns and gains or losses recognized upon sale are included in other expense.

In accordance with ASC 310-10-35, "Receivables - Overall - Subsequent Measurements," the Bank classifies loans as in-substance repossessed or foreclosed if the Bank receives physical possession of the debtor's assets regardless of whether formal foreclosure proceedings take place.

EARNINGS (LOSS) PER SHARE:

Basic earnings (loss) per share (EPS) excludes dilution and is computed by dividing net income (loss) available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. The weighted average common shares were 1,260,540 in 2010 and 2009, and net income (loss) per share was \$0.53 and \$(0.16), respectively. There were no dilutive common stock equivalents relating to outstanding stock options during the years ending December 31, 2010 and 2009.

ADVERTISING:

The Bank directly expenses costs associated with advertising as they are incurred.

INCOME TAXES:

The Bank recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the temporary differences between the accounting basis and the tax basis of the Bank's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled.

FAIR VALUES OF FINANCIAL INSTRUMENTS:

ASC 825, "Financial Instruments," requires that the Bank disclose estimated fair values for its financial instruments. Fair value methods and assumptions used by the Bank in estimating its fair value disclosures are as follows:

Cash and cash equivalents: The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets' fair values.

Interest-bearing time deposits with other banks: The fair value of interest bearing time deposits in other banks was determined by discounting the cash flows associated with these instruments using current market rates for deposits with similar characteristics.

Securities: Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans receivable: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for other loans are estimated by discounting the future cash flows, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Accrued interest receivable: The carrying amount of accrued interest receivable approximates its fair value.

Deposit liabilities: The fair values disclosed for demand deposits, regular savings, NOW accounts, and money market accounts are equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Federal Home Loan Bank advances: Fair values for Federal Home Loan Bank advances are estimated using a discounted cash flow technique that applies interest rates currently being offered on advances to a schedule of aggregated expected monthly maturities on Federal Home Loan Bank advances.

Off-balance sheet instruments: The fair value of commitments to originate loans is estimated using the fees currently charged to enter similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments and the unadvanced portion of loans, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligation with the counterparties at the reporting date.

RECENT ACCOUNTING PRONOUNCEMENTS:

In June 2009, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 166, “Accounting for Transfers of Financial Assets,” and SFAS No. 167, “Amendments to FASB Interpretation No. 46(R).” These standards are effective for the first interim reporting period of 2010. SFAS No. 166 amends the guidance in ASC 860 to eliminate the concept of a qualifying special-purpose entity (“QSPE”) and changes some of the requirements for derecognizing financial assets. SFAS No. 167 amends the consolidation guidance in ASC 810-10. Specifically, the amendments will (a) eliminate the exemption for QSPEs from the new guidance, (b) shift the determination of which enterprise should consolidate a variable interest entity (“VIE”) to a current control approach, such that an entity that has both the power to make decisions and right to receive benefits or absorb losses that could potentially be significant, will consolidate a VIE, and (c) change when it is necessary to reassess who should consolidate a VIE. These standards did not have a significant impact on the Bank’s financial statements.

In March 2010, the FASB issued ASU 2010-11, “Scope Exception Related to Embedded Credit Derivatives.” The ASU clarifies that certain embedded derivatives, such as those contained in certain securitizations, CDOs and structured notes, should be considered embedded credit derivatives subject to potential bifurcation and separate fair value accounting. The ASU allows any beneficial interest issued by a securitization vehicle to be accounted for under the fair value option at transition. At transition, the Bank may elect to reclassify various debt securities (on an instrument-by-instrument basis) from held-to-maturity (HTM) or available-for-sale (AFS) to trading. The new rules are effective July 1, 2010. The ASU did not have a material impact on the Bank’s financial condition and results of operations.

In January 2010, the FASB issued ASU 2010-06, “Improving Disclosures about Fair Value Measurements.” The ASU requires disclosing the amounts of significant transfers in and out of Level 1 and 2 of the fair value hierarchy and describing the reasons for the transfers. The disclosures are effective for reporting periods beginning after December 15, 2009. The Bank adopted ASU 2010-06 as of January 1, 2010. The required disclosures are included in Note 17. Additionally, disclosures of the gross purchases, sales, issuances and settlements activity in the Level 3 of the fair value measurement hierarchy will be required for fiscal years beginning after December 15, 2010.

In April 2010, the FASB issued ASU 2010-18, “Effect of a Loan Modification When the Loan is Part of a Pool That is Accounted for as a Single Asset.” As a result of this ASU, modifications of loans that are accounted for within a pool under Subtopic 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. The amendments in this ASU are effective for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. The amendments are to be applied prospectively. Early application is permitted.

In July 2010, the FASB issued ASU 2010-20, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This ASU is created to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables. This ASU is intended to provide additional information to assist financial statement users in assessing the entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. The amendments in this ASU are effective for public entities as of the end of a reporting period for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. For nonpublic entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2011.

In December 2010, the FASB issued ASU 2010-28, "Intangibles - Goodwill and Other." This ASU is to addresses when to perform step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For public entities, the amendments in this ASU are effective for fiscal years and interim periods beginning after December 15, 2010. For nonpublic entities, the amendments are effective for fiscal years and interim periods beginning after December 15, 2011.

In December 2010, the FASB issued ASU 2010-29, "Disclosure of Supplementary Pro Forma Information for Business Combinations." This ASU addresses diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. This ASU is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010.

NOTE 3 - INVESTMENTS IN AVAILABLE-FOR-SALE SECURITIES

Debt securities have been classified in the balance sheets according to management's intent. The amortized cost of securities and their approximate fair values are as follows as of December 31:

	<u>Amortized Cost Basis</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
December 31, 2010:				
Debt securities issued by U.S. government corporations and agencies	\$ 1,998,080	\$ -	\$ 13,899	\$ 1,984,181
State and municipal obligations	3,032,004	1,358	79,116	2,954,246
Mortgage-backed securities	<u>31,586,134</u>	<u>579,997</u>	<u>76,385</u>	<u>32,089,746</u>
	<u>\$36,616,218</u>	<u>\$581,355</u>	<u>\$169,400</u>	<u>\$37,028,173</u>
December 31, 2009:				
Debt securities issued by U.S. government corporations and agencies	\$ 9,507,541	\$ 9,044	\$132,485	\$ 9,384,100
Mortgage-backed securities	<u>31,106,237</u>	<u>457,857</u>	<u>84,447</u>	<u>31,479,647</u>
	<u>\$40,613,778</u>	<u>\$466,901</u>	<u>\$216,932</u>	<u>\$40,863,747</u>

The scheduled maturities of available-for-sale securities were as follows as of December 31, 2010:

	<u>Fair Value</u>
Due after one year through five years	\$ 1,984,181
Due in more than ten years	2,954,246
Mortgage-backed securities	<u>32,089,746</u>
	<u>\$37,028,173</u>

During the year ended December 31, 2010, proceeds from the sales of available-for-sale securities amounted to \$5,319,088, with a realized gain of \$236,170. During the year ended December 31, 2009, proceeds from the sale of an available-for-sale security amounted to \$4,455,513, with a realized gain of \$11,632.

There were no securities of issuers which exceeded 10% of stockholders' equity as of December 31, 2010.

As of December 31, 2010 and 2009, securities with carrying amounts of \$14,672,932 and \$17,671,712, respectively, were pledged to secure public deposits, borrowings at the Federal Home Loan Bank of Boston and available borrowing capacity at the Federal Reserve Bank discount window.

The aggregate fair value and unrealized losses of securities that have been in a continuous unrealized loss position for less than twelve months and for twelve months or more, and are not other than temporarily impaired, are as follows:

	<u>Less than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
December 31, 2010:						
Debt securities issued by U.S. Government corporations and agencies	\$ 1,984,181	\$ 13,899	\$ -	\$ -	\$ 1,984,181	\$ 13,899
State and municipal obligations	2,699,065	79,116	-	-	2,699,065	79,116
Mortgage-backed securities	<u>11,094,566</u>	<u>76,385</u>	<u>-</u>	<u>-</u>	<u>11,094,566</u>	<u>76,385</u>
Total temporarily impaired securities	<u>\$15,777,812</u>	<u>\$169,400</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$15,777,812</u>	<u>\$169,400</u>
December 31, 2009:						
Debt securities issued by U.S. Government corporations and agencies	\$ 7,375,056	\$132,485	\$ -	\$ -	\$ 7,375,056	\$132,485
Mortgage-backed securities	<u>12,770,054</u>	<u>84,447</u>	<u>-</u>	<u>-</u>	<u>12,770,054</u>	<u>84,447</u>
Total temporarily impaired securities	<u>\$20,145,110</u>	<u>\$216,932</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$20,145,110</u>	<u>\$216,932</u>

The investments in the Bank's investment portfolio that are temporarily impaired as of December 31, 2010 consist of debt securities issued by U.S. government sponsored enterprises, U.S. government agencies and municipal obligations. The unrealized losses in the above table are attributable to changes in market interest rates. Bank management does not intend to sell these securities in the near term future, and anticipates that the securities will be held until cost recovery occurs. As Bank management has the intent and ability to hold the debt securities for the foreseeable future, the decline is deemed to be temporary.

NOTE 4 - LOANS

Loans consisted of the following as of December 31:

	<u>2010</u>	<u>2009</u>
Real estate - construction and land development	\$ 5,278,276	\$ 1,450,007
Real estate - residential	13,619,747	9,432,327
Real estate - commercial	37,197,432	31,522,311
Commercial and industrial	6,953,620	7,062,963
Consumer	<u>445,179</u>	<u>340,599</u>
	63,494,254	49,808,207
Deferred fees, net	(78,798)	(72,868)
Allowance for loan losses	<u>(842,578)</u>	<u>(635,783)</u>
Net loans	<u>\$62,572,878</u>	<u>\$49,099,556</u>

Certain directors and executive officers of the Bank and companies in which they have significant ownership interest were customers of the Bank during 2010. Total loans to such persons and their companies amounted to \$290,049 as of December 31, 2010. During 2010, principal payments totaled \$605,173 and advances amounted to \$544,000.

Changes in the allowance for loan losses were as follows for the years ended December 31:

	<u>2010</u>	<u>2009</u>
Balance at beginning of period	\$635,783	\$287,610
Loan charged-off	-	(4,173)
Provision for loan losses	<u>206,795</u>	<u>352,346</u>
Balance at end of period	<u>\$842,578</u>	<u>\$635,783</u>

As of December 31, 2010 and 2009, the Bank has non-accrual loans with an outstanding balance of \$956,897 and \$762,418, respectively, and no accruing loans 90 days or more overdue at December 31, 2010 and 2009, respectively.

Information about loans that meet the definition of an impaired loan in ASC 310-10-35, "Receivables - Loans and Debt Securities Acquired with Deteriorated Credit Quality - Subsequent Measurement," is as follows as of December 31:

	<u>2010</u>		<u>2009</u>	
	Recorded Investment In Impaired Loans	Related Allowance For Credit Losses	Recorded Investment In Impaired Loans	Related Allowance For Credit Losses
Loans for which there is a related allowance for credit losses	\$ -	\$-	\$762,418	\$37,500
Loans for which there is no related allowance for credit losses	<u>956,897</u>	-	-	-
Totals	<u>\$ 956,897</u>	<u>\$-</u>	<u>\$762,418</u>	<u>\$37,500</u>
Average recorded investment in impaired loans during the year ended December 31	<u>\$1,007,495</u>	<u>\$-</u>	<u>\$361,768</u>	
Related amount of interest income recognized during the time, in the year ended December 31, that the loans were impaired				
Total recognized	<u>\$ 7,367</u>		<u>\$ 23,310</u>	
Amount recognized using a cash-basis method of accounting	<u>\$ 7,367</u>		<u>\$ 23,310</u>	

Loans serviced for others are not included in the accompanying balance sheets. The unpaid principal balances of loans serviced for others were \$8,111,454 and \$6,007,148 at December 31, 2010 and 2009, respectively. Servicing rights related to the sale and servicing of these loans have not been recorded by the Bank since the amount is deemed to be immaterial to the financial statements.

NOTE 5 - PREMISES AND EQUIPMENT

The following is a summary of premises and equipment as of December 31:

	<u>2010</u>	<u>2009</u>
Leasehold improvements	\$ 743,239	\$ 728,454
Furniture and equipment	<u>358,292</u>	<u>336,150</u>
	1,101,531	1,064,604
Accumulated depreciation and amortization	<u>(296,696)</u>	<u>(184,776)</u>
	<u>\$ 804,835</u>	<u>\$ 879,828</u>

NOTE 6 - DEPOSITS

The aggregate amount of time deposit accounts in denominations of \$100,000 or more as of December 31, 2010 and 2009 was \$14,164,839 and \$8,279,053, respectively.

Deposits from related parties held by the Bank as of December 31, 2010 and 2009 amounted to \$4,055,461 and \$6,124,062, respectively.

For time deposits as of December 31, 2010, the scheduled maturities for each of the following years ended December 31 are:

2011	\$11,862,413
2012	7,691,724
2013	2,586,030
2014	<u>65,897</u>
Total	<u>\$22,206,064</u>

At December 31, 2010, the Bank had one depositor holding deposits of \$10,670,902, or 11.33% of total deposits, and another depositor holding deposits of \$6,146,858, or 6.53% of total deposits. At December 31, 2009, the Bank had one depositor holding deposits of \$5,778,547, or 6.93% of total deposits, and another depositor holding deposits of \$4,550,989, or 5.46% of total deposits.

NOTE 7 - FEDERAL HOME LOAN BANK ADVANCES

Advances consist of funds borrowed from the Federal Home Loan Bank of Boston (FHLB).

Maturities of advances from the FHLB for the years ending after December 31, 2010 are summarized as follows:

2011	\$3,047,684
2012	<u>907,572</u>
	<u>\$3,955,256</u>

Amortizing advances are being repaid in equal monthly payments and are being amortized from the date of the advance to the maturity date on a direct reduction basis.

Borrowings from the FHLB are secured by a blanket lien on qualified collateral, consisting primarily of certain unencumbered investment securities and other qualified assets.

At December 31, 2010, the interest rates on FHLB advances ranged from 2.08% to 2.14%. At December 31, 2010, the weighted average interest rate on FHLB advances was 2.11%.

NOTE 8 - INCOME TAX BENEFIT

The components of income tax benefit are as follows for the years ended December 31:

	<u>2010</u>	<u>2009</u>
Current:		
Federal	\$ 116,840	\$ -
State	15,155	-
Benefit of operating loss carryforward	<u>(131,995)</u>	<u>-</u>
	<u>-</u>	<u>-</u>
Deferred:		
Federal	128,684	(31,592)
State	12,947	(8,630)
Change in valuation allowance	<u>(492,610)</u>	<u>40,222</u>
	<u>(350,979)</u>	<u>-</u>
Total income tax benefit	<u>\$ (350,979)</u>	<u>\$ -</u>

The reasons for the differences between the statutory federal income tax rate and the effective tax rates are summarized as follows for the years ended December 31:

	<u>2010</u>	<u>2009</u>
	% of	% of
	<u>Income</u>	<u>Income</u>
Federal income tax at statutory rate	34.0%	(34.0)%
Other, net	7.3	16.7
State tax expense (benefit), net of federal tax (benefit) expense	2.7	(2.9)
Change in valuation allowance	<u>(153.0)</u>	<u>20.2</u>
Effective tax rates	<u>(109.0)%</u>	<u>0.0%</u>

The Bank had deferred tax assets and deferred tax liabilities as follows as of December 31:

	<u>2010</u>	<u>2009</u>
Deferred tax assets:		
Allowance for loan losses	\$ 94,242	\$183,955
Accelerated depreciation	3,253	3,301
Stock option expense	66,659	45,298
Start-up expenses	119,532	129,705
Net operating loss carryforward	27,028	127,131
Organizational expenses	34,252	37,167
Interest on non-performing loans	47,237	2,751
Other	<u>1,280</u>	<u>1,711</u>
Gross deferred tax asset	393,483	531,019
Valuation allowance	<u>-</u>	<u>(393,597)</u>
	<u>393,483</u>	<u>137,422</u>
Deferred tax liabilities:		
Unrealized holding gain on available-for-sale securities	(163,176)	(99,013)
Deferred loan costs	(42,504)	(34,587)
Other	<u>-</u>	<u>(3,822)</u>
Gross deferred tax liability	<u>(205,680)</u>	<u>(137,422)</u>
Net deferred tax asset	<u>\$187,803</u>	<u>\$ -</u>

The Bank has state and federal net operating loss carryforwards of \$269,160 and \$35,083 which will expire in 2027. The tax benefit related to the net operating loss carryforwards totaled \$27,028 and has not been offset with a valuation allowance as it is more likely than not that the deferred tax asset will be utilized.

It is the Bank's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. As of December 31, 2010 and 2009, there were no material uncertain tax positions related to federal and state income tax matters. The Bank is currently open to audit under the statute of limitations by the Internal Revenue Service and state taxing authorities for the years ended December 31, 2007 through December 31, 2010.

NOTE 9 - EMPLOYEE BENEFITS

Defined Contribution Plan

The Bank maintains a 401(k) plan for all of its employees. The Bank may make matching contributions based on employee elective deferrals. The Bank's contribution to the plan was \$9,706 in 2010 and \$6,566 in 2009.

NOTE 10 - EMPLOYMENT AGREEMENTS

The Chief Executive Officer, Chief Lending Officer and Chief Financial Officer each have entered into employment agreements with the Bank. The agreements provide for payments of one year's base salary and other incentive compensation upon termination, as defined in each agreement. Upon a change in control, as defined in each agreement, followed by the executive's termination, the Bank shall pay each executive between one and two years' base salary. Each agreement is for one year with one year extensions each year thereafter.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

As of December 31, 2010, the Bank is obligated under operating leases for bank premises expiring between November 30, 2011 and May 31, 2013. The leases contain options to renew for periods from 3 to 18 years. The cost of such rentals is not included below. The total minimum rental due in future periods under the existing agreements is as follows as of December 31, 2010:

2011	\$131,320
2012	123,070
2013	<u>51,279</u>
Total minimum lease payments	<u>\$305,669</u>

The leases contain provisions for escalation of minimum lease payments. The total rental expense amounted to \$137,673 and \$110,127 for the years ended December 31, 2010 and 2009, respectively.

On June 27, 2007, the Bank entered into an agreement with a third party data processing services provider which ends on October 1, 2014. The agreement may be terminated at any time by the Bank. If the Bank elects to terminate the agreement, it is required to pay a termination fee. The termination fee shall be an amount equal to all costs reasonably incurred by the data processing services provider in connection with such termination plus the total compensation which would have been paid or reimbursed to the data processing service provider during the remainder of the term of the agreement. As of December 31, 2010, the Bank had no plans to terminate the agreement.

NOTE 12 - FINANCIAL INSTRUMENTS

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments is represented by the contractual amounts of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many commitments expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include secured interests in mortgages, accounts receivable, inventory, property, plant and equipment and income-producing properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of December 31, 2010 and 2009, the maximum potential amount of the Bank's obligation was \$333,896 and \$320,625, respectively, for standby letters of credit. The Bank's outstanding letters of credit generally have a term of less than one year. If a letter of credit is drawn upon, the Bank may seek recourse through the customer's underlying line of credit. If the customer's line of credit is also in default, the Bank may take possession of the collateral, if any, securing the line of credit.

Notional amounts of financial instrument liabilities with off-balance sheet credit risk are as follows as of December 31:

	<u>2010</u>	<u>2009</u>
Commitments to originate loans	\$ 5,084,400	\$2,770,000
Standby letters of credit	333,896	320,625
Unadvanced funds on construction loans	226,400	717,865
Unadvanced funds on commercial real estate loans	2,049,277	1,344,379
Unadvanced funds on commercial lines of credit	5,224,764	4,791,018
Unadvanced funds on consumer loans	9,000	9,000
	<u>\$12,927,737</u>	<u>\$9,952,887</u>

There is no material difference between the notional amounts and the estimated fair values of the off-balance sheet liabilities.

NOTE 13 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

Most of the Bank's business activity is with customers located within the state of New Hampshire. There are no concentrations of credit to borrowers that have similar economic characteristics. The majority of the Bank's loan portfolio is comprised of loans collateralized by real estate located in the state of New Hampshire.

NOTE 14 - WARRANTS TO PURCHASE COMMON STOCK

In May 2008, in recognition of each Organizer's financial commitment to the organization of the Bank, warrants to purchase the Bank's common stock were issued to each Organizer. Each warrant entitles the holder to purchase one share of the Bank's common stock at \$10.00 per share. As of December 31, 2010 and 2009, there were 94,300 shares that could be purchased. The warrants expire on May 28, 2018 and are exercisable at any time before the expiration date.

The fair value of the warrants were estimated using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 0 percent, expected volatility of 22 percent, risk-free interest rate of 4.03 percent, and expected lives of 10 years. The Bank recognized the total compensation cost of \$399,939 with respect to the warrants in 2008.

NOTE 15 - SHARE-BASED COMPENSATION PLAN

In May 2008, the Bank adopted the Nashua Bank 2008 Stock Option Plan (the "Plan"). Under the Plan, the Bank may grant stock options to directors, officers and employees for up to 190,000 shares of common stock. Bank incentive stock options and nonqualified stock options may be granted under the Plan. Stock options shall be granted with an exercise price that equals or exceeds the fair market value of the Bank's common stock on the date of grant. Stock options have a maximum term of ten years. Shares of common stock awarded under the Plan are contingently awarded to recipients subject to restrictions based on the general rules of the Plan.

The fair value of each option granted during 2010 and 2009 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2010 and 2009, respectively; dividend yield of 0 percent for both years; expected volatility of 29 and 28 percent, respectively; risk-free interest rates of 3.26 and 2.85 percent, respectively; and expected lives of 10 years for both years.

A summary of the status of the Bank's stock option plan as of December 31, 2010 and 2009 and changes during the years then ended is presented below:

<u>Fixed Options</u>	<u>2010</u>		<u>2009</u>	
	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>
Outstanding at beginning of year	168,858	\$10.00	163,858	\$10.00
Granted	19,052	\$10.00	5,000	\$10.00
Forfeited	<u>(35,019)</u>	\$10.00	-	\$ -
Outstanding at end of year	<u>152,891</u>	\$10.00	<u>168,858</u>	\$10.00
Weighted-average fair value of options granted during the year	\$4.63		\$4.34	

The following table summarizes information about fixed stock options outstanding as of December 31, 2010:

<u>Exercise Price</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number Outstanding as of 12/31/10</u>	<u>Weighted-Average Remaining Contractual Life</u>	<u>Weighted-Average Exercise Price</u>	<u>Number Exercisable as of 12/31/10</u>	<u>Weighted-Average Exercise Price</u>
\$10.00	152,891	7.9 years	\$10.00	79,713	\$10.00

As of December 31, 2010, there was \$274,758 of total unrecognized compensation cost related to nonvested shares granted under the Plan. The cost is expected to be recognized over a period of 4.75 years. The total share-based compensation expense recorded during the years ended December 31, 2010 and 2009 was \$143,491 and \$145,672, respectively.

NOTE 16 - REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2010 and 2009, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2010, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios are also presented in the table.

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
(Dollar amounts in thousands)						
As of December 31, 2010:						
Total Capital (to Risk Weighted Assets)	\$12,729	20.97%	\$4,857	≥8.0%	\$6,071	≥10.0%
Tier 1 Capital (to Risk Weighted Assets)	11,969	19.72	2,428	≥4.0	3,643	≥6.0
Tier 1 Capital (to Average Assets)	11,969	10.62	4,507	≥4.0	5,633	≥5.0
As of December 31, 2009:						
Total Capital (to Risk Weighted Assets)	11,994	23.25	4,128	≥8.0	5,160	≥10.0
Tier 1 Capital (to Risk Weighted Assets)	11,359	22.02	2,064	≥4.0	3,096	≥6.0
Tier 1 Capital (to Average Assets)	11,359	10.56	4,304	≥4.0	5,380	≥5.0

The Federal Deposit Insurance Corporation requires the Bank to maintain a Tier 1 leverage capital ratio of 8% for the first seven years of operation and requires that the Bank may pay cash dividends only from net operating income.

The Bank entered into an informal written agreement on February 26, 2010 with the FDIC and the Banking Commissioner of the State of New Hampshire (the "Commissioner") pursuant to which the Bank agreed to maintain a Tier 1 Leverage Capital Ratio of 8.00%, a Tier 1 Risk-Based Capital Ratio of 10.00% and a Total Risk-Based Capital Ratio of 11.00%.

NOTE 17 - FAIR VALUE MEASUREMENTS

ASC 820-10, "Fair Value Measurements and Disclosures," provides a framework for measuring fair value under generally accepted accounting principles. This guidance also allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis.

In accordance with ASC 820-10, the Bank groups its financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury, other U.S. Government and agency mortgage-backed securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3 - Valuations for assets and liabilities that are derived from other methodologies, including option pricing models, discounted cash flow models and similar techniques, are not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets and liabilities.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Bank's financial assets and financial liabilities carried at fair value for December 31, 2010 and 2009. The Bank did not have any significant transfers of assets between level 1 and level 2 of the fair value hierarchy during the year ended December 31, 2010.

The Bank's cash instruments are generally classified within level 1 or level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

The Bank's investment in securities available-for-sale is generally classified within level 2 of the fair value hierarchy. For these securities, we obtain fair value measurements from independent pricing services. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. treasury yield curve, trading levels, market consensus prepayment speeds, credit information and the instrument's terms and conditions.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used. Subsequent to inception, management only changes level 3 inputs and assumptions when corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalization and other transactions across the capital structure, offerings in the equity or debt markets, and changes in financial ratios or cash flows.

The Bank's impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using level 2 inputs based upon appraisals of similar properties obtained from a third party.

The following summarizes assets measured at fair value for the periods ending December 31, 2010 and 2009.

ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS

	<u>Fair Value Measurements at Reporting Date Using:</u>			
	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets Level 1</u>	<u>Significant Other Observable Inputs Level 2</u>	<u>Significant Unobservable Inputs Level 3</u>
<u>December 31, 2010</u>				
Securities available-for-sale	<u>\$37,028,173</u>	<u>\$ -</u>	<u>\$37,028,173</u>	<u>\$ -</u>
Totals	<u>\$37,028,173</u>	<u>\$ -</u>	<u>\$37,028,173</u>	<u>\$ -</u>
<u>December 31, 2009</u>				
Securities available-for-sale	<u>\$40,863,747</u>	<u>\$ -</u>	<u>\$40,863,747</u>	<u>\$ -</u>
Totals	<u>\$40,863,747</u>	<u>\$ -</u>	<u>\$40,863,747</u>	<u>\$ -</u>

ASSETS MEASURED AT FAIR VALUE ON A NONRECURRING BASIS

Under certain circumstances we make adjustments to fair value for our assets and liabilities although they are not measured at fair value on an ongoing basis. The following table presents the financial instruments carried on the consolidated balance sheet by caption and by level in the fair value hierarchy at December 31, 2010 and 2009, for which a nonrecurring change in fair value has been recorded:

	Fair Value Measurements at Reporting Date Using:			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<u>December 31, 2010</u>				
Impaired loans	\$ -	\$ -	\$ -	\$ -
Totals	\$ -	\$ -	\$ -	\$ -
<u>December 31, 2009</u>				
Impaired loans	\$ 724,918	\$ -	\$ 724,918	\$ -
Totals	\$ 724,918	\$ -	\$ 724,918	\$ -

The estimated fair values of the Bank's financial instruments, all of which are held or issued for purposes other than trading, are as follows as of December 31:

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 7,910,183	\$ 7,910,183	\$ 8,580,626	\$ 8,580,626
Interest-bearing time deposits	1,150,000	1,173,843	1,150,000	1,159,666
Available-for-sale securities	37,028,173	37,028,173	40,863,747	40,863,747
Federal Home Bank stock	489,900	489,900	489,900	489,900
Loans, net	62,572,878	63,405,000	49,099,556	49,201,000
Accrued interest receivable	317,183	317,183	387,624	387,624
Due from broker	31,119	31,119	141,191	141,191
Financial liabilities:				
Deposits	94,156,894	94,395,000	83,344,995	83,491,000
Federal Home Loan Bank advances	3,955,256	3,984,865	6,938,575	6,999,000

The carrying amounts of financial instruments shown in the above table are included in the consolidated balance sheets under the indicated captions, except for due from broker which is included in other assets. Accounting policies related to financial instruments are described in Note 2.

NOTE 18 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 1, 2011, which is the date the financial statements were available to be issued. The informal written agreement that had been in effect at December 31, 2010, as disclosed in Note 16, Regulatory Matters, was terminated by the FDIC and the Banking Commissioner of the State of New Hampshire on March 14, 2011.

NOTE 19 - RECLASSIFICATION

Certain amounts in the prior year have been reclassified to be consistent with the current year's statement presentation.